



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
GOVAN MBEKI LOCAL MUNICIPALITY
Private Bag X 1017
Secunda
2302

15 December 2012

Reference: 03014REG11-12

Dear Sir

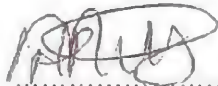
Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Govan Mbeki Municipality for the year ended 30 June 2012

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa [section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)/ section 40(2)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) you are required to include the audit report in the Govan Mbeki's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
 7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



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Senior Manager: Mpumalanga

Enquiries: Phaswa Mamogale
Telephone: (013) 756 0800
Fax: (013) 756 0879

REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GOVAN MBEKI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Govan Mbeki Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standard of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to confirm the valuation of infrastructure assets to the value of R20 888 945 included in property, plant and equipment, due to assets not being unbundled as required by GRAP 17. Consequently, I could not satisfy myself as to the valuation of infrastructure assets to the value of R1 544 526 383, as disclosed in note 4 to the financial statements.
7. I was unable to verify the existence of buildings, infrastructure assets and community assets amounting to R39 905 073 included in property, plant and equipment, due to insufficient information in the asset register. The accounting records of the municipality did not permit the application of alternative audit procedures. Consequently, I was unable to verify the existence of property, plant and equipment of R2 295 043 128, as disclosed in note 4 to the financial statements.
8. I was unable to confirm the completeness of buildings, infrastructure assets and community assets included in property, plant and equipment, as I could not trace the selected assets to the asset register due to insufficient information in the asset register. The accounting records of the municipality did not permit the application of alternative audit procedures. Consequently, I could not obtain sufficient appropriate audit evidence as to the completeness of property, plant and equipment of R2 295 043 128, as disclosed in note 4 to the financial statements

Provision

9. GRAP 3 requires an entity to correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the prior periods presented in which the error occurred; or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented. The municipality did not restate the provision for the landfill site with a prior period error amounting to R122 995 681 in the earliest prior period presented. The error was adjusted as an addition for the year ended 30 June 2011. I was unable to determine the extent of the effect of the necessary adjustments on the accumulated depreciation, the accumulated surplus and the movement in the landfill site provision as disclosed in note 17 to the financial statement.

Cash flow statement

10. The cash flow statement as presented in the financial statements does not agree to the relevant notes as disclosed in the financial statements. Management could not provide explanations or supporting documentation for the differences identified. The accounting records of the municipality did not permit the application of alternative audit procedures. Consequently, I could not obtain sufficient appropriate audit evidence as to the accuracy of the cash flow included in the financial statements.

Qualified opinion

11. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Govan Mbeki Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

13. As disclosed in note 51 to the financial statements, material losses of R34 534 038 and R85 196 931 were incurred as a result of distribution losses on water and electricity, respectively.

Material impairments

14. As disclosed in note 12 to the financial statements, material impairments of R535 053 733 were incurred as a result of the provision for doubtful debts.

Additional matter

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

16. The supplementary information provided on pages xx to xx is not clearly differentiated from the audited financial statements. Management did not change the manner in which the unaudited supplementary information is presented, as requested.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.

19. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
20. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
21. The material findings are as follows:

Usefulness of information

Presentation

22. Improvement measures for all of the planned targets not achieved were not disclosed in the annual performance report, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). This was due to the fact that the municipality had not developed and approved internal policies and procedures for performance information management and reporting.

Consistency

23. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 97% of the reported objectives, indicators and targets were not consistent with the objectives, indicators and targets as per the approved integrated development plan. This was due to a lack of action plans to address shortcomings in the performance management and reporting process identified during the internal and external audit processes.

Measurability

24. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. All of the targets relevant to the provision of water, sanitation and roads and storm water objectives were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that the municipality did not have sufficient capacity to plan, manage and report on its performance.
25. The FMPPI requires that performance targets be measurable. The required performance could not be measured for all of the targets relevant to the provision of water, sanitation and roads and storm water objectives. This was due to the fact that the municipality did not have sufficient capacity to plan, manage and report on its performance.

26. The FMPPI requires that the time period or deadline for delivery be specified. All of the targets relevant to the provision of water, sanitation and roads and storm water objectives were not time bound in specifying a time period or deadline for delivery. This was due to a lack of internal policies and procedures for performance information management and reporting.
27. The FMPPI requires that indicators should have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. All of the indicators relevant to the provision of water, sanitation and roads and storm water objectives were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to a lack of internal policies and procedures for performance information management and reporting.
28. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 60% of the indicators relevant to the provision of water, sanitation and roads and storm water objectives were not verifiable in that valid processes and systems that produced the information on actual performance did not exist. This was due to a lack of key controls in the relevant systems of verification of actual performance information.

Reliability of information

Validity

29. The FMPPI requires that processes and systems that produce the indicator be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to all of the provision of water, sanitation and roads and storm water objectives. This was due to limitations placed on the scope of my work by the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

Accuracy

30. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to all of the provision of water, sanitation and roads and storm water objectives. This was due to limitations placed on the scope of my work by the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

Completeness

31. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the actual performance reported in the annual performance report. This was due to a lack of a document management system.

Additional matter

32. I draw attention to the matter below. This matter does not have an impact on the audit findings on predetermined objectives reported above.

Achievement of planned targets

33. Of the total number of planned targets, none were achieved during the year under review. This means that 100% of the total planned targets were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process; therefore there was no consistency between the service delivery plan and the annual report.

Compliance with laws and regulations

34. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements, performance report and annual report

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements of capital assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected or the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Asset management

36. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
37. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Audit committee

38. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
39. A performance audit committee was not in place and the audit committee established in terms of section 166(1) of the MFMA was not used for this function, as required by Municipal Planning and Performance Management Regulation 14(2)(a).

Expenditure management

40. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
41. The accounting officer did not take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Internal audit

42. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
 - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review
 - it did not report to the audit committee on the implementation of the internal audit plan
 - it did not advise the accounting officer or report to the audit committee on matters relating to internal audit, internal control, accounting procedures and practices, risk and risk management as well as loss control.
43. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
44. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on its audits to the municipal manager, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

45. Goods and services with a transaction value between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of Supply Chain Management (SCM) Regulation 17(a) and (c).
46. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(b).
47. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).
48. Bid specifications were not always drafted by bid specification committees composed of one or more officials of the municipality, as required by SCM Regulation 27(3).
49. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding had been advertised for the required minimum period, as required by SCM Regulation 22(1) and (2).

50. Sufficient appropriate audit evidence could not be obtained that bids had been evaluated by bid evaluation committees composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM Regulation 28(2).
51. Sufficient appropriate audit evidence could not be obtained that contracts had been awarded to bidders based on points given for criteria that had been stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
52. Sufficient appropriate audit evidence could not be obtained that the preference point system had been applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and SCM Regulation 28(1)(a).
53. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
54. Sufficient appropriate audit evidence could not be obtained that construction contracts had been awarded to contractors registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the Construction Industry Development Board Act of South Africa, 2000 (Act No. 38 of 2000) (CIDB Act) and CIDB Regulations 17 and 25(7A).
55. Construction projects were not always registered with the CIDB, as required by section 22 of the CIDB Act and CIDB Regulation 18.
56. Sufficient appropriate audit evidence could not be obtained that contracts had only been awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43.
57. Sufficient appropriate audit evidence could not be obtained that contracts had been awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
58. Awards were made to providers who are persons in the service of the municipality in contravention of SCM Regulation 44. Furthermore, providers failed to declare that they were in the service of the municipality.
59. A list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM Regulation 14(1)(a).
60. Sufficient appropriate audit evidence could not be obtained that bid specifications for the procurement of goods and services through competitive bids had been drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as required by SCM Regulation 27(2)(a).
61. Sufficient appropriate audit evidence could not be obtained that contracts and quotations had been awarded to suppliers based on preference points that had been allocated and calculated in accordance with the requirements of the PPPFA and its regulations.

62. Sufficient appropriate audit evidence could not be obtained that contracts had only been extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
63. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
64. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations had been awarded in accordance with the legislative requirements and a procurement process that is fair, equitable, transparent and competitive, due to a lack of a proper filling system.

Strategic planning and performance

65. The municipality did not conduct its affairs in a manner that was consistent with its integrated development plan, as required by section 36 of the MSA and Municipal Planning and Performance Management Regulation 6.
66. The municipality did not take steps to improve performance with regard to those development priorities and objectives where performance targets had not been met, as required by section 41 of the MSA.

Internal control

67. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

68. Overall responsibility was not exercised regarding financial and performance reporting and compliance as well as related internal controls.
69. Although the municipality had developed a plan to address internal and external audit findings, adherence to the plan was not monitored.

Financial and performance management

70. Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
71. Controls were not implemented over daily and monthly processing and reconciling of transactions.
72. Formal controls over information technology systems were not designed and implemented to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

73. The audit committee did not function throughout the year. Members were only appointed six months before year-end. Consequently, the committee did not approve the internal audit plan and did not exercise any oversight over the implementation of the matters reported by the internal audit function.

AUDITOR - GENERAL

Nelspruit

15 December 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence